

MINUTES
FINANCE COMMITTEE MEETING
May 10, 2023
(continued from May 8, 2023)

The Finance Committee of the Board of Water Supply, County of Kauai reconvened its meeting on Monday, May 10, 2023 at 9:16 a.m. Quorum was achieved with 2 members present.

COMMITTEE MEMBERS

Lawrence Dill, *Committee Chair*
Tom Shigemoto

EXCUSED

Ka'aina Hull

PUBLIC TESTIMONY

The department received no public testimony prior to the meeting, and there were no registered speakers.

There were two (2) guests who joined the meeting remotely.

NEW BUSINESS:

1. Discussion and Possible Action on Department of Water's DRAFT Proposed Operating and Capital Budgets for FY 2023-2024 (*continued from May 8, 2023 Finance Committee session*)

Manager Tait stated that since Monday's meeting, Fiscal has been working with the division heads to make adjustments based on some of the Committee's questions, as well as continuing to look into historical number vs. current. He complemented Renee, Terri, Jonelle and Anne for the quick turnaround of a large amount of information in a short period of time.

Waterworks Controller Renee Yadao noted that changes had been made to include information for current expenditures, fund balance projections, some housekeeping within CIP to move certain line items into Engineering and included additional projects to be funded through SRF.

Referencing the Budget Summary of Page 21, Committee member Dill pointed out asked to clarify that our total available funds is \$44.1 million, minus operating expenses and outstanding contracts and POs through the end of the year, leaves us with \$21.8 million. Taking the budget expenses and capital outlay leaves us with a negative balance of -\$4 million at the end of 2024. He asked how we would deal with that negative balance. Ms. Yadao stated that she and her team have been discussing Federal spending and going through the Operating budget to see where they can make some modifications. Manager Tait added that as they go through the list of priority Engineering projects, some of those may fall off, noting that this is the first time in 15 years that DOW has had a zero-sum budget. Corrections to the budget will continue to be made because they will not know the final numbers until July or August, at which time a Supplemental Budget will be submitted. Mr. Dill stated he is not comfortable showing a budget where we are looking at losing \$4 million, which Ms. Yadao agreed with, adding that her intent is to show things as they are so they can discuss it together. Manager Tait stated that DOW has not had a history of seeking or securing Federal monies, so his objective in the next fiscal year is to start that process.

Mr. Dill stated he would prefer to see that number not less than zero by reducing the capital outlay and coming back to the board during the year as appropriate to add it back. Mr. Shigemoto agreed and asked if the current projects they have are priorities, and whether they are 100 percent sure they can be completed, or is there an idea of which ones they can guarantee. Manager Tait stated they have to look at which ones they can fund and encumber that will come in next year but are known to be a priority. Moving forward, the intent is for the Board to be aware of the true and actual budget before they start trimming.

Mr. Dill asked whether the \$19.2 million under Budgeted Capital Outlay is an encumbrance number or actual expenditure. Mr. Hinazumi clarified that it is an encumbrance, noting that one of the challenges they face in government is the need to show up front that they can finance a project in totality even if it's a multi-year contract. Mr. Dill stated as an example that if they have a contract that totals \$1 million, that whole amount would show in these totals even if they only anticipate actually spending \$100,000 to which Mr. Hinazumi stated yes. Mr. Dill acknowledged that but commented that is not an accurate representation of what is happening in the budget from an actual cash flow perspective. He asked Ms. Yadao to try and eventually figure out how to address that. Mr. Dill asked how much of that \$19 million are we actually anticipated to spend to which Mr. Hinazumi stated probably not even half. Mr. Dill commented that seeing negative \$4 million is alarming but noted that the actual cash flow for next year is much better than what this budget is portraying. Mr. Shigemoto asked how the other funds listed, such as the FRC, BAB and SRF factor into the capital. Ms. Yadao stated they are budgeted separately within the capital by fund and is not included in that number. Ms. Yadao stated the team did discuss areas that can be cut, noting that they did budget conservatively for the salaries, which will likely be one of the target areas. Manager Tait added that they are aware of their inability to fill vacancies and are trying to be realistic about what that looks like. Mr. Shigemoto stated for clarification that they are hoping to fill at least 50 percent of the vacancies but moving forward if positions were funded 100% with that many people, there would not be enough funds for all these positions. He stated it is incumbent upon the Department to look at rate increases to cover those costs. Manager Tait explained that Acting Engineering Chief Jason Kagimoto is managing the Water Systems Investment Plan which will show us what those future capital outlays will look like. He also noted that DOW has never had a staffing plan, and it is in his goals and objectives for this fiscal year to come back to the Board with a realistic number of staff. He added that the allotted positions for the department have remained unchanged for many years but questioned whether that is a realistic number. Another thing to consider is where would we physically put all those staff members if we filled all the current allotted positions. Mr. Dill stated for clarification that they will make some adjustments to the budgeted capital outlay in the WUGF to get that bottom number to less than zero to which Mr. Tait stated yes, and the intent was to show the Committee the actual picture first.

Mr. Dill asked if there were any changes to the introductory summary since Monday. Ms. Yadao stated they did not really change anything in the overall operating budget; it was primarily adding another month of expenditures, updating the estimated amounts for June 30 and the proposed budget.

Fiscal Division

Mr. Dill noted that Salaries and Wages are budgeted at \$1.2 million for Fiscal, which reflects funding the current vacancies at 50%, and questioned what that number would be if we were fully staffed; what would the worst-case scenario be if we had to budget for that for department-wide vacancies?

Engineering

In response to Mr. Dill, Mr. Kagimoto stated there are currently 13 or 14 vacancies in Engineering. Mr. Shigemoto asked if jump from the estimated \$271,000 under Construction – Admin – Salaries and Wages to \$645,000 is a result of filling positions. Ms. Yadao stated that number includes current vacancies within the division that are not part of the current expenditures. Mr. Kagimoto added that the vacant positions include a CE V, CE III, and Inspector positions which are higher-salaried positions.

Mr. Dill noted that under Professional Services for Eng. Admin. on Page 34 the estimated number for this year is at \$86,000, but the proposed jumps to \$3.3 million. Mr. Kagimoto stated the \$86,000 is what was invoiced, but the proposed \$3.3 million reflects the anticipated encumbrances. Mr. Kagimoto listed some of the contracts that are included in that number like as-needed project management, the lead and copper rule revisions, Kauai Watershed Alliance USGS funding, Kauai Water Use and Development Plan, and for contractors for various construction projects. Mr. Dill asked how much of that \$3.3 million do we anticipate spending in the next fiscal year to which Mr. Kagimoto replied about a quarter of it. Mr. Dill understands the requirement to fully encumber the funds but requested that fiscal work on a way to show the anticipated cash flow that will affect our budget next year.

On Page 35 under Training and Development, Mr. Dill noted we have not spent much on training, but would encourage them to take advantage of what we've budgeted. Mr. Kagimoto stated they have been working to be more proactive on training while trying to balance their limited staff. Mr. Hinazumi added that there are a lot of trainings that are currently going on that will be invoiced by the end of the year. There are several conferences, trainings, and events through the end of the year that staff will be attending. Mr. Dill encouraged all divisions to take advantage of opportunities to help our employees get better.

Operations

Mr. Dill referenced Page 38 under Professional Services that shows a proposed budget of \$400,000 and asked what that will be for. Assistant Chief of Operations Ryan Smith explained it is for the demolition of the old DOW Administration building and includes the electrical design that has to be done for the power removal from the building. For clarification, this is for the design work, not construction; construction is budgeted on Page 43, Capital Outlay, line item 10-40-00-604-175 – Demolish Admin Building/Add Temp Parking Lot at an additional \$400,000.

Mr. Dill inquired whether there are any solar-powered systems in the Department to which Civil Engineer Dustin Moises stated the current Administration Building is equipped with a solar-powered system. Mr. Dill requested that the Department look into potential solar-powered systems that can be utilized moving forward, noting that Utility Services is a big budget number. In response to Mr. Dill, Mr. Smith stated that the large number in line item 10-40-60-563-010, TandD Operating Supplies is due to the meter replacements.

ADMINISTRATION

Mr. Dill commented that it's nice to see that Overtime costs have been reduced to which Manager Tait stated it's part of the clean-up process. He added that Administration's training and travel budgets are low as well, which will be appropriately adjusted as necessary.

Ms. Yadao noted that on Page 43, Capital Outlay, they added to Grant Fund (Capital Projects – Expansion – Construction) to include State Appropriation Grants totaling \$10.6 million. These are grants that we have been notified we will be receiving. Ms. Yadao also noted that also added was State Revolving Fund items totaling \$5 million; the interest rates vary from 1 to 2 percent.

Mr. Dill referenced Page 43 that shows total Capital Outlay – CIP (New Appropriations) at \$39.5 million, and Budgeted Capital Outlay on Page 21 shows -\$42 million. Ms. Yadao explained that they initially had \$2.5 million budgeted for Water Utility, but that will moved to SRF. Mr. Dill requested an update on Page 21 to accurately reflect that change.

Ms. Yadao stated that Exhibit I represents all the contract encumbrances that they are aware of but noted they do need to do a thorough scrub. She added that she is unsure if this was done in the past, but each fiscal year, there should be a clean up to see whether contracts are valid or need to be closed accordingly. She noted it is common to have silos when it comes to managing contracts where contracts are not being funneled through procurement and happens throughout various departments. Fiscal wants to investigate that to better manage our contract encumbrances moving forward. Mr. Dill asked how the total of \$44 million in encumbrances relates to the Outstanding Contracts, and PO encumbrances on Page 21. Ms. Yadao \$44 million is the total of all the funds including state allotments and SRF encumbrances; Water Utility is responsible for the \$18.3 million listed. Mr. Dill stated for clarification that he does not see anything outstanding in the other funds to which Ms. Yadao explained she did not include that in those buckets accordingly because she does not know the revenues that happened in the prior fiscal year; those need to be reconciled. Mr. Dill asked if the \$18.3 million shown is our existing liability, is that \$44 million also potential existing liability, and should that be reflected in this summary report. Ms. Yadao stated yes, within the state allotments and SRF, but at this time she does not know what the revenues looked like for those. Mr. Dill clarified that if there are liabilities in those other funds other than Water Utility, it is not reflected here. Ms. Yadao stated she will work with Engineering on the revenue sources for those and populate those numbers. Mr. Dill asked if we have enough Total Cash, Investments, and Revenues to cover all those liabilities. Ms. Yadao stated the SRF and State Allotments are one-for-one so if it's an encumbrance, we either received or anticipate receiving the revenue to match the expense; it's just a timing situation where we have to pay up front and get reimbursed.

The meeting recessed at 10:17 a.m. and scheduled to reconvene on May 11, 2023 at 9:00 a.m.

Respectfully submitted,

Cherisse Zaima
Commission Support Clerk

DRAFT